



CDAD

COMMUNITY DEVELOPMENT ADVOCATES OF DETROIT

***Community Development
Advocates of Detroit***

Recommended Improvements

to the

Qualified Allocation Plan (QAP)

VERSION ONE—2007

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RECOMMENDED IMPROVEMENTS TO THE QUALIFIED ALLOCATION PLAN (QAP)

Community Development Advocates of Detroit, commonly known as CDAD, is the trade association of community development corporations (CDC) in the City of Detroit. We have nearly 100 member organizations. Seventy percent of our members are non-profit community development corporations. The remaining affiliate members represent organizations that support the community development industry.

The Low Income Housing Tax Credit (LIHTC) is a critically important tool for non-profit developers in Detroit and throughout the state. However, there are challenges that exist with the current QAP that are disproportionately negatively affecting community development in Detroit. We believe that it is to our mutual benefit to improve the QAP so that Detroit can continue to serve as a major community and economic development driver for the state at a time when we cannot afford to lose momentum.

Reflections on the Current System

From our perspective, the current lottery system has negatively impacted non-profit community developers in Detroit. The chance nature of a lottery makes it very difficult to plan ahead for projects and to secure funding. The current lottery system leaves too many elements to chance, making it difficult, if not impossible, for many community development corporations to participate in the process.

The cost associated with the pre-development necessary to apply for tax credits provides a considerable burden for non-profits. Due to the fact that reports have a six-month lifespan, an organization that does not make it through to be funded must re-do all pre-development reports and assessments prior to the next round. These costs can run anywhere from \$30,000 to \$100,000 utilizing critical funding that could be used for other mission-related projects and programs. Funders who support pre-development activities are reluctant to invest in pre-development support of tax credit projects because of the uncertain nature of the outcome for their investment.

The result is that fewer non-profit developers are in a position to submit tax credit projects for consideration. In fact, the ability for CDCs to partner with for-profit developers has also been negatively impacted by the current QAP. Costs are just too great to invest in an uncertain return.

We offer the following recommendations to improve the credit award system so that it is fair, merit-based, meets the needs of the state, and specifically, the City of Detroit, and creates some additional certainty to the nonprofit development community thereby ensuring that creative community development approaches continue to be pursued.

1) Create a merit-based system that meets the state's needs

We believe strongly that the current lottery system is inequitable. The system does not result in the awarding of projects based on either of the two appropriate allocation methods: merit (strength of project) or need. Once plans surpass the minimum level of quality, they are chosen, not based on merit or quality, nor are they chosen based upon an allocation which would serve the greatest need, but rather they are chosen by chance. This process eliminates any incentive for plans to exceed the minimum threshold by giving high scoring projects and minimum level scoring projects the same chance to be picked.

Recommendation: MSHDA could implement a hybrid system that would provide incentives for better projects. The first part of a funding round could evaluate and rank applications on a purely performance basis. After a certain percentage of the credit had been reserved, say 60%, the remaining applications which meet the minimum quality standard could go into a lottery. This hybrid approach would have the positive effect of providing a strong incentive for applicants to create better quality, higher scoring plans. Additionally, this hybrid system takes into consideration the needs of lower scoring projects and gives them a chance to receive credit thereby meeting their community need.

2) Address the needs of the City of Detroit and other urban/core communities

The current QAP does not do an adequate job aligning credit award with the needs of the people of the state. To illustrate, the City of Detroit is suffering significant losses of credit awards under the current system yet the need in the City of Detroit is great, as demonstrated by data previously presented to you by CDAD Board Chair Tim Thorland of Southwest Housing Solutions. Below are some highlights:

- The LIHTC program is designed to serve those at 60% AMI or below or those with incomes up to \$36,300 adjusted for family size. Median household income in the city of Detroit is approximately \$28,000 compared to median state income, which is \$60,500.
- Further, families comprise 189,728, or 61%, of the households in Detroit. The average family size is approximately 3.7 people. The median household income for families is \$33,640; and represents approximately 55% of statewide AMI. Approximately 51% of all family households fall at or below 60% statewide AMI.
- For non-family households, whose average size is approximately 1.2 persons; the median income is \$19,383. The mean is about \$27,320. About 70% of non-family households fall at or below 60% of the statewide AMI.
- 59% percent of the approximately 311,000 households in Detroit have incomes at or below 60% of the Statewide AMI. In contrast about 37% of Michigan's households, not including Detroit, fall at or below 60% of the statewide AMI.

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The current QAP has had a significant adverse affect on Detroit's ability to address needs through the LIHTC program. During the past 2 ½ credit year cycles Detroit received an overall average of 32% of the credit awards (see Table 1 below for details).

Table 1. 2005-2007 (YTD) Credit Awards for Detroit and Urban/Core Communities

	Detroit Award	% Detroit	Urban/Core Communities Award	% Urban/Core Communities	Total Award
CC 2005	153,385	16%	935,417	100%	935,417
Mar-05	5,678,394	47%	9,209,027	76%	12,115,992
Sep-05	1,755,711	29%	3,397,365	56%	6,023,746
CY 2005	7,587,490	40%	13,541,809	71%	19,075,155
Sep-05	3,924,125	46%	5,878,856	69%	8,524,431
CC 2006	0	0%	857,555	100%	857,555
Mar-06	1,775,107	18%	4,911,404	50%	9,828,177
CY 2006	5,699,232	30%	11,647,815	61%	19,210,163
Sep-06	2,015,392	22%	6,364,935	68%	9,355,724
1st 1/2 CY 2007	2,015,392	22%	6,364,935	68%	9,355,724
2 1/2 Year Average	15,302,114	32%	31,554,559	66%	47,641,042

For comparison, the four-year average of credit awards made to Detroit between 2001 and 2004 was 55% (see Table 2 below for details). This represents a 23% reduction in the average credit awards made to Detroit since the QAP was revised in 2005.

Table 2. 2001-2004 Credit Awards for Detroit and Urban/Core Communities

	Detroit Award	% Detroit	Urban/Core Communities Award	% Urban/Core Communities	Total Award
Mar-01	254,657	4%	2,452,668	34%	7,181,984
Jul-01	4,341,404	73%	4,356,973	73%	5,963,126
	4,596,061	38%	6,809,641	54%	13,145,110
Mar-02	5,796,286	70%	6,956,975	84%	8,311,781
Jul-02	2,581,820	47%	3,302,486	61%	5,436,887
	8,378,106	59%	10,259,461	72%	13,748,668
Mar-03	7,492,426	91%	7,537,585	91%	8,250,454
Jul-03	1,530,217	27%	4,714,899	83%	5,698,870
	9,022,643	59%	12,252,484	87%	13,949,324
Mar-04	4,683,418	58%	6,810,897	84%	8,099,734
Jul-04	3,531,326	56%	5,529,356	88%	6,281,599
	8,214,744	57%	12,340,253	86%	14,381,333
4 Year Average	30,211,554	55%	41,661,839	75%	55,224,435

Despite the state's efforts to create "cool cities" and revitalize and promote development in designated "cities of promise", other urban/core communities have also experienced a decrease in credit awards (see Table 2 for details) in the LIHTC program. Urban/core communities received an average of 66% of the credits in 2005-06 compared to an average of 75% in 2001-04. This represents a 9% decrease in the average credits awarded to urban/core communities.

The 2005 QAP ultimately included a 45% cap for credits given to any one city. This was obviously directed toward the City of Detroit, which had historically received a greater number of tax credits based on needs within the city. However, Detroit has only received 32% of credits awarded in the last 2 ½ years. It is critical that the state's largest city with one of the highest poverty levels in the country benefit from a program that provides a fair, competitive, merit-based opportunity to receive its fair share of tax credits.

Recommendation: We recommend that the Authority institute a QAP which provides a fair, competitive, merit based opportunity for the City of Detroit and other core/urban communities to receive their fair share of the credit and to advance the state's economic and planning goals. We urge MSHDA to consider a new process that will not leave projects entirely to chance, but rather takes into account the needs of the host community and the impact these projects can have on neighborhoods.

3) Extend pre-development shelf-life

As previously mentioned, the current process, which requires a submission of new pre-development reports with each tax credit application has been problematic for community developers. The need to submit these reports with each round is a costly requirement that has ultimately created a scenario where many non-profit organizations have had to opt out of the tax credit application process. Those organizations who continue to participate do so through the expenditure of funding that is becoming increasingly difficult to come by and justify. Funders want to invest in projects that can have an impact on neighborhoods. There is no guarantee this will be the case for tax credit projects. This has resulted in an environment where funders and CDCs question the merit of continuing to apply round after round for tax credits.

Recommendation: If pre-development reports could remain valid for an entire calendar year, that would significantly reduce the use of hard-to-come-by, mission-critical dollars that non-profit developers would have to expend just to apply for LIHTC. It would also reduce the economic disincentives to prepare high quality but costly proposals that currently have limited usefulness.

4) Create incentives for good projects to re-apply

Prior to 2005 and leading discussion relative to the establishment of a lottery system, it was widely claimed that projects scoring above a certain threshold but not enough to receive an allocation were becoming more and more common. Rationale for a lottery system claimed that, for the most part, all projects above a certain point threshold were generally equal. While this may hold some

truth, the real truth is that the establishment of a minimum threshold, with the awarding of the credit being left to chance, fails to encourage developers and owners to strive to create the best projects for their communities. A reversion back to the time when projects reached for all available amenities creates stronger more viable projects.

Recommendation: If it is the development community's or Authority's ongoing concern that certain types of projects will break threshold but never receive credit, the Authority may consider implementing a scoring category for repeat applications. For example, the Authority could award three points to applications which pass threshold but fail to receive an award of credit and continue to award these bonus points for each round a project is unfunded. This would reward the efforts of developers to prepare quality proposals and create incentive to reapply if not awarded credits in any given round.

5) Improve processing times

One claim of the 2005 QAP was that the institution of the lottery would decrease application volumes and increase the Authority staff's ability to process applications quickly and effectively, namely because each application received would not have to be reviewed in full. Based on our analysis of the published information, the time period between the receipt of applications and the announcement of credit award has not shortened since the 2005-2006 QAP but rather lengthened considerably.

Recommendation: CDAD encourages the Authority to assess and adjust staffing levels so that they are adequate to ensure reasonable processing times are maintained. Previously, the Authority took sixty to seventy-five days from receipt of applications to announce the credit awards, and CDAD recommends that this standard be re-applied.

6) Institute a cure period for minor deficiencies

Time after time in round after round applications are denied points, or even credits, for minor deficiencies related to clerical errors or oversights. Many states have implemented processes which effectively manage a cure process for these types of situations.

Recommendation: The Authority should work to adopt a standard and process which will allow for the curing of minor deficiencies. In the long run, such will improve the overall effectiveness and efficiency of the program and encourage developers and funders to invest in preparing innovative plans for communities in need.

7) Offer project-based subsidies

In order to fulfill the goal of the LIHTC program, projects provide quality housing to the lowest incomes. However, due to current market conditions and the lack of availability of alternative funding sources many projects which meet these goals become financially unfeasible. LIHTC was

created to help fill these gaps but is no longer sufficient to address the entire gap for many projects. Specifically in Detroit, many projects previously utilized HOME dollars to help subsidize projects in conjunction LIHTC allocations. This allowed projects to provide much needed quality housing to those least able to afford it. However, the HOME dollars are no longer widely available and, as a result, many excellent projects serving those at the lowest incomes are not financially viable.

Recommendation: The market in Southeastern Michigan, and specifically in Detroit, calls for gap financing beyond the LIHTC. In order for applicants to continue to fulfill the purpose of LIHTC, MSHDA should offer project based subsidies in addition to the credit. This would secure and stabilize the projects which are serving MSHDA's goal of creating viable long-term housing for the lowest incomes.

8) Align the credits with State initiatives

In order to achieve the overall goals of the LIHTC program, the QAP must be strategically aligned with other programs across the State. State initiatives and other MSHDA programs should be reinforced by the LIHTC. There must be a comprehensive approach to providing affordable housing that includes various programs working in conjunction to achieve shared goals. The LIHTC QAP should reinforce the goals of existing programs and state initiatives. Currently, the connections between credit allocation and program function are not always apparent.

Recommendation: It would be beneficial if MSHDA developed project priorities that are aligned with critical state initiatives so that CDCs and other developers would have an idea of how to strategically align projects. The LIHTC program should identify strategic linkages and award appropriate point increases based on strategic state initiatives such as the Cities of Promise and plan to eliminate homelessness.

9) Increase the Cool Cities set aside to 10%

The Cool Cities program is an innovative and much needed program in Michigan, which LIHTC has acknowledged and supported by designating a 5% holdback. The Cool Cities program shares many of LIHTC overall program goals in terms of revitalizing neighborhoods. As the number and power of Cool Cities in Michigan has increased, so too should the Cool Cities holdback. The Cool Cities program would be greatly reinforced by an increase in holdback amount. The State is already increasing support and grant funding to select cities through the Cool Cities program. So too should the LIHTC program by increasing the holdback for Cool Cities areas in order to both increase the amount of quality low income housing in these areas and leverage investment to facilitate the revitalization process.

Recommendation: The 2008 QAP should increase the Cool Cities holdback to 10% to reflect the support of the State sponsored program, the increasing number of Cool Cities, and the need for increased affordable housing in these areas.

10) Retain more economic benefit within Michigan

The current QAP does a good job in encouraging the use of Michigan based products and similar principles aimed at improving the Michigan economy. Given the present state of the economy, there may be other opportunities to retain the secondary economic benefits of this program within the state.

Recommendation: The Authority should consider the inclusion of a scoring category which awards points for Michigan based ownership, contracting, and/or development. While there is not an enormous amount of out-state participation in the Michigan LIHTC program, the QAP should encourage and reward participation by Michigan based companies.

Conclusion

We sincerely appreciate MSHDA's invitation to submit CDAD recommendations to improve this important housing and community development program. At the core of our recommendations is a belief that community and economic development is critically important to our state's future. Our industry creates places where individuals and families choose to live, work and play. We create an environment where individuals and families, despite economic disadvantages, are poised to thrive. Our industry, particularly in Detroit, is a partner in the economic recovery of this state, and improving the QAP will help set us all on the path to success.